

SECRET

27 January 1963

TO : Chief, Procurement Division, OL
Attention:

FROM : Chief, Security Staff, OL

SUBJECT :

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1. In accordance with the instructions of the Deputy Director of Logistics, the above contract is returned herewith without security approval pending further study and/or revision.
2. I am unable to approve this contract in its present form, for the following reasons:
 - a. The Contractor has not been briefed relative to industrial security requirements and procedures by a Security Representative of the Contracting Officer.
 - b. No security inspection or approval has been made for the facility where the Contractor will receive, store, and generate classified material. If a bank safety deposit box is to be used, there must first be a determination by OL/SS that this is feasible from a security standpoint, then the Contractor must sign a special agreement and be thoroughly briefed in his responsibilities as well as sterile invoicing, etc. A security-approved mail channel would also have to be established.
 - c. Insufficient information is available as to how the Contractor proposes to perform under the contract. The Contractor apparently has an office as his letter of 12 October 1962 refers to "personal office expense." Is this a one-man shop? Are there associates or employees who require clearances and briefings? Who will do the typing and keep the accounting records? Will the reports from the Contractor involve technical editing, or the use of graphic arts and reproduction facilities?
 - d. The contract does not indicate whether the Contractor will monitor contracts, or both; nor is there any indication as to whether he will be restricted to items and projects that are unclassified per se. The resultant security problems cannot be properly assessed without a more definitive statement as to the scope of the proposed duties.

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- e. Section 6, "Security Requirements" in the contract is ambiguous and misleading. It states that "the Item(s) per se under this contractual document is (are) UNCLASSIFIED." The only "items" the Contractor will produce are written visitation reports, reports on evaluation of new procurement sources, correspondence, etc. If these "items" concern intrinsically classified equipment or projects, they are CLASSIFIED; if they are addressed to the Contracting Officer they are SECRET. Section 6 further states that "the association of the sponsor with the items being procured hereunder is classified SECRET." However, if the "items" concern [] contracts, then the association is UNCLASSIFIED.

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- f. From a security standpoint, I question the feasibility of paragraph 2 under "Scope of Work" which directs the Contractor to develop prospective new sources for NPIC procurement. In order to perform this function without compromising the sterility and classification of future procurement, the Contractor should have both overt and covert credentials, a briefing in the use of cover, a thorough knowledge of both [] procurement procedures, ready access to Agency clearance records (including security denials), and access to OL/PD files on past experiences with prospective new sources.
- g. One of the duties involved in the technical monitoring of contracts is to provide interim security guidance relative to the classification of reports, sub-assemblies, etc. I question whether or not this governmental function may be legally delegated to a civilian Consultant, even if the Consultant is professionally qualified (Subject lists no Federal employment since 1951).

3. It appears that the Contractor will visit a number of West Coast contractors of NPIC interest, both classified and unclassified. Some of these firms will have both [] contracts and may be engaged in sensitive work also for other Agency components. The Contractor will also have to receive extensive knowledge of our covert procurement practices and Station 954. Even with adequate briefing, I hesitate to entrust the security of these procedures and installations to other than an experienced staff employee over whom the Agency has a certain control. From a security standpoint it would be preferable for NPIC to station a qualified staff employee at Station 954 where security guidance, contract files, and clearance records are available. If this is impracticable, I recommend that the technical monitoring be handled from Washington, D. C. by NPIC personnel as in the past. However, I hesitate to state that this contract is impossible for security reasons, since the information submitted is insufficient for a complete security analysis. If NPIC wishes to pursue this matter, I suggest that a meeting be arranged between them, representatives of OL/PD, and the undersigned.

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4. It is noted that this contract has been under consideration since at least mid-October 1962, with the formal requisition submitted to OL/PD on 2 January 1963, however, OL/SS had no knowledge of the proposal until the completed contract was presented for security approval at 11:30 a.m. on 22 January 1963. By the latter date some oral commitments had been made to and expenses incurred by the prospective contractor. Since the security problems should have been obvious, OL/SS should have been consulted while this proposal was still in the planning stage.

Orig & 1 - addressee
1 - D/L (Attn: DD/L)
1 - file

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